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## BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
JEFF-HATCH-MILLER  
Commissioner  
KRISTIN K. MAYES  
Commissioner  
GARY PIERCE  
Commissioner

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF THE APPLICATION  
OF GARKANE ENERGY COOPERATIVE,  
INC. FOR APPROVAL OF REVISIONS TO  
ITS LINE EXTENSION POLICY.

DOCKET NO. E-01891A-07-0081

DECISION NO. 69915ORDER

Open Meeting  
September 18 and 19, 2007  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Garkane Energy Cooperative, Inc. ("Garkane" or the "Cooperative") is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission" or "ACC").

2. On February 5, 2007, Garkane filed for Commission approval of revisions to its Line Extension Policy ("Policy"). The revised Policy adds a new item to provide hook-up fees and includes a new hook-up fee schedule. Garkane explains its Application is to make its Arizona Policy consistent with the Policy applicable to the rest of its system in Utah, where hook-up fees were implemented in June 2006. The Cooperative states that the most equitable way to support new investment required by rapid growth is to charge such investment directly to the incremental customers who are causing the cost to be incurred thus protecting existing customers from rate increases to fund new growth.

3. On February 9, 2007, Garkane, through its council, Michael M. Grant, filed a memorandum agreeing to suspend the time clock on its Application through and including May

1 11, 2007, to provide Staff with additional time to review Garkane's proposed Policy. In response  
2 to a Staff recommendation, the Commission on May 21, 2007, issued Decision No. 69571 to  
3 suspend Garkane's Application for an additional 130 days to September 18, 2007.

4 4. Garkane is a rural non-profit electric cooperative headquartered in Loa, Utah. In  
5 December 2006 Garkane provided electric power to 11,608 members in Utah and Arizona. About  
6 94.1 percent of Garkane's customers are in Utah leaving only 5.9 percent, or 690 customers, in  
7 Garkane's Arizona service territory. The customers fall predominantly into the residential and  
8 small commercial classes of service with 519 residential customers, 119 small commercial  
9 customers, and 52 water-pumping, street lighting, and other customers in 2006. There are no large  
10 power customers in Garkane's Arizona service territory.

11 5. Staff is currently engaged in its investigation and research work in connection with  
12 generic Docket No. E-00000K-07-0052 and G-00000E-07-0052, opened by the Commission to  
13 address the hook-up fee issue for both electric and natural gas utilities in Arizona. Efforts in  
14 connection with the Generic Docket are currently in process; however, Staff does not believe that  
15 it is necessary to await the outcome of the generic docket investigation to move forward with  
16 Garkane's Application. Garkane's situation regarding hook-up fees is far less complex than that of  
17 many other Arizona utilities for the following reasons: 1) the same hook-up fees have been  
18 successfully implemented in Garkane's Utah service territory; 2) the Cooperative's status as a not-  
19 for-profit cooperative exempt it from state and federal income taxes; 3) a cooperative has fewer  
20 options to fund infrastructure since they do not have access to capital equity markets; and 4) the  
21 low customer count and rural character of the Cooperative's service territory in Arizona.  
22 Furthermore, while Staff has not completed its work on the generic docket, certain facts and  
23 principles concerning hook-up fees have already become known.

24 6. Staff is aware of two electric utilities in Arizona that use hook-up fees. Dixie  
25 Escalante Rural Electric Association, which serves a small portion of the northeastern part of  
26 Arizona, has a Commission-approved "impact" fee that imposes \$750 per residential hook-up for  
27 installed capacity over 20 kW, and a Commercial, Irrigation, and General Service impact fee of  
28 \$60 per kW based on the maximum installed capacity. Wellton-Mohawk Irrigation and Drainage

District, which provides electric service to a small portion of the southwestern part of Arizona, recently adopted a \$750 hook-up fee for new residential facilities. Hook-up fees for non-residential facilities are considered on a case-by-case basis.

7. One consideration in determining if hook-up fees may be appropriate is whether the service territory exhibits growth in customers, sales, and peak loads that could be considered rapid growth. More traditional methods of funding and recovering costs have historically been effective in acquisition of new infrastructure to accommodate growth in low- or moderate-growth areas. Infrastructure in these cases is typically funded with equity or debt financing, placed into rate base, and recovered through rates over the estimated lifetime of the equipment or plant purchased or constructed.

8. Customer growth in Garkane's two-state service territory has been rapid in both Utah and Arizona. The Arizona service territory exhibited slightly slower overall customer growth (from 472 to 690 Arizona customers) compared with Utah from 1997 to 2006 and in the most recently available five-year period (from 541 to 690 Arizona customers), but nonetheless the growth has been rapid. Customer growth over the most recent five years has been higher in both states compared to that of the first five years for which data is available. Below is a table illustrating Garkane customer growth figures presented in average annual growth rate percentages:<sup>1</sup>

<b>Garkane Energy Cooperative, Inc. Customer Growth</b> (Average Annual Percentage Growth Rates)				
<b><u>Time Period</u></b>	<b><u>Arizona Service Territory</u></b>		<b><u>Utah Service Territory</u></b>	
	<b><u>Residential</u></b>	<b><u>Total All Classes</u></b>	<b><u>Residential</u></b>	<b><u>Total All Classes</u></b>
9 Yrs. Between 1997-2006	5.4%	4.3%	4.8%	4.8%
5 Yrs. Between 1997-2002	4.7%	4.0%	2.5%	3.0%
5 Yrs. Between 2001-2006	6.3%	5.0%	6.5%	6.2%

<sup>1</sup> Under Staff's First Data Request, Garkane provided 10 years of December (snapshot) or annual data for a variety of different series allowing Staff to analyze nine periods of growth between those 10 data points. Note also that Staff's examination of the earliest five years of growth and the most recent five years of growth overlap.

9. Megawatt hour sales growth has, likewise, exhibited robust growth. Residential sales in the Arizona service territory exhibited the most aggressive growth having more than doubled from 3,087 MWh in 1997 to 6,622 MWh in 2006. During the same time period, total Arizona service territory sales in all classes of service grew from 8,031 MWh to 12,781 MWh. Arizona MWh sales in 2006 represent about 7.5 percent of Garkane's 2006 MWh sales. Below is a table illustrating Garkane MWh sales growth rates:

<b>Garkane Energy Cooperative, Inc. MWh Sales Growth</b> (Average Annual Percentage Growth Rates)				
<u><b>Time Period</b></u>	<u><b>Arizona Service Territory</b></u>		<u><b>Utah Service Territory</b></u>	
	<u>Residential</u>	<u>Total All Classes</u>	<u>Residential</u>	<u>Total All Classes</u>
9 Yrs. Between 1997-2006	8.8%	5.3%	5.7%	5.1%
5 Yrs. Between 1997-2002	6.8%	4.7%	3.0%	2.1%
5 Yrs. Between 2001-2006	11.0%	6.3%	7.9%	7.4%

10. Another consideration in determining whether hook-up fees may be appropriate is whether the utility is obligated to pay federal and/or state income taxes on the hook-up fees collected from potential customers. If income taxes are assessed against the hook-up fees, this method of financing new growth becomes less attractive and may be characterized as an inefficient way to pay for new plant and equipment needed to serve new customers. Garkane, as a not-for-profit cooperative, is not subject to income taxes either at the federal or state levels:

11. Following is the hook-up fee schedule proposed by Garkane. It is the same as the hook-up fee schedule currently in effect in Utah.

*The hook-up fee shall be based upon the service entrance main breaker and/or fuse sets amperage and nominal service voltage. Where there are more than one service entrance main breakers and/or fuse sets, the hook-up fee shall be based upon the sum of such devices. Service entrances which are upgraded and result in increased capacity shall be assessed a hook-up fee equal to the difference between the original service entrance size and the upgraded service entrance size. Service entrances which are upgraded for safety reasons or system improvements without increase in service capacity may have the hook-up fee waived. In new subdivisions, hook-up fees shall be assessed to the lot owner at the time the customer requests service to the lot.*

**RESIDENTIAL OR NON-DEMAND SERVICES***(Single Phase 120/240 Volt Service)***OVERHEAD OR UNDERGROUND SYSTEM CONNECTION**

<i>0-100 amps</i>	<i>\$1,000.00</i>
<i>101-200 amps</i>	<i>\$2,000.00</i>
<i>Each additional 100 amps, or portion thereof</i>	<i>\$1,000.00</i>

**COMMERCIAL, IRRIGATIONAL, GENERAL SERVICE, OR ALL OTHER SERVICES**

<i>Installed Meter Capacity</i>	<i>\$40/kW</i>
<i>or Minimum Impact Fee</i>	<i>\$1,000.00</i>

12. An important consideration in calculating an appropriate amount to charge for hook-up fees is that imbedded costs already included in base rates should be subtracted from the total cost of adding new customers in the calculation. This is important because new customers would be paying a hook-up fee and would then commence paying rates that include similar costs for existing or historical infrastructure. To avoid having new customers overpay, the hook-up fee should be designed to exclude the historical costs imbedded in base rates that all customers, existing or new would pay. The objective is to place existing and new customers on the same footing and to reduce or eliminate any cross subsidization between existing and new customers.

13. Garkane's hook-up fee calculation methodology appropriately follows this general principle. While Staff would not characterize the Cooperative's calculation as a sophisticated marginal cost study, it is based on appropriate data and follows a methodology that Staff considers to be logical and appropriate for this application.

14. Garkane's proposed hook-up fee schedule is based on system-wide calculations that include both Utah and Arizona. This is appropriate because much of the infrastructure that serves Arizona customers is located in Utah. Garkane believes only transmission and distribution backbone expenditures should be included in hook-up fees and has used only those costs in its calculations. Distribution backbone includes only substations and 19.9 kV and 34.5 kV distribution express feeders that Garkane built as upgrades or improvements to its system. It does not include facilities that have been constructed as "line extensions." The Cooperative analyzed the dollars invested to serve recent new customers and determined that \$6,299 was invested per

1 customer during 2000-2005. It then determined the historical average investment per customer to  
2 be \$3,974 (net plant on the books divided by the total number of customers). Garkane then  
3 subtracted the historical average imbedded investment per customer (\$3,974) from the recent  
4 investment per customer (\$6,299) and arrived at a potential hook-up fee amount of \$2,325 per  
5 customer in new plant above the historical amount included in rates.

6 15. Garkane believes and Staff agrees that the cost associated with serving new loads  
7 should be proportional to the size of the load. The Cooperative expressed its belief that the service  
8 entrance main breaker is the best way to gauge the relative size of new loads that have no history.  
9 The service entry main breaker size is also readily identifiable. The calculated hook-up fee  
10 amount of \$2,325 was rounded down to \$2,000 and associated with the most prevalent type of  
11 customer added, the residential 200 amp customer, proportionately fixing the residential hook-up  
12 fee at \$1,000 per 100 amps. Commercial and other customers take service at a variety of voltage  
13 levels, so Garkane performed a calculation to convert the 200 amp service at \$2,000 to  $\$40/\text{kW}^2$ .

14 16. Although Staff agrees with Garkane's hook-up fee calculation, Staff is concerned that  
15 Garkane is proposing hook-up fees in conjunction with an existing free allowance line extension  
16 policy. The existing free allowance line extension policy, up to 600 feet free, would have the  
17 effect of reducing the amount of the hook-up fee. Staff feels the two policies would send  
18 contradictory signals to potential customers and are theoretically incompatible with each other,  
19 however, easily netted out for practical implementation. Garkane's Utah service territory also has  
20 both a free allowance line extension policy and its hook-up fees in place, but the Cooperative is  
21 discussing possible elimination of the free line extension footage in 2008.

22 17. Garkane's free line extension footage allowances in effect in Utah and in Arizona are  
23 vastly different. The Policy in effect in Arizona is based on a free 600 foot extension and is more  
24 beneficial to customers than the Policy in Utah, which is based on a \$600 allowance. The  
25 discrepancy between the two Policies has resulted from regular updates having been applied to the  
26 Utah Policy, where the Arizona Policy has not been updated since 1985. The proposed Policy  
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28 <sup>2</sup> A 200 amp single phase 120/240 volt service is equivalent to 48 kW (200 X 240). \$2,000 divided by 48 kW is \$41.67 per kW. This was rounded to \$40 per kW.

1 Garkane is asking the Commission to approve is the 22-year old Line Extension Policy with one  
2 additional item appended to add hook-up fees. While Staff is not opposed to the adoption of hook-  
3 up fees for Garkane, it is concerned that the Policy needs to be updated.

4 18. Staff believes that, in this instance, hook-up fees are an appropriate mechanism to  
5 help finance capital expenditures associated with incremental infrastructure required to  
6 accommodate rapid new growth. Their use would provide accelerated recovery to the Cooperative  
7 for installation of such infrastructure. Staff further believes the use of hook-up fees would more  
8 appropriately assign the costs of new growth to those who are causing the growth, and that their  
9 use would help to keep rates lower for Garkane's members. Therefore, Staff has recommended the  
10 Commission approve Garkane's proposed Line Extension Policy that includes hook-up fees as  
11 outlined in item 10 of that Policy. Staff has further recommended that hook-up fee collections be  
12 placed into a separate interest bearing account, and that Garkane file in Docket Control by  
13 September 30 of each year beginning in 2008 a report of its hook-up fee collections including 1)  
14 the amount collected; 2) from whom the hook-up fees were collected including contact  
15 information; 3) the amount spent; and 4) a list of plant installed using hook-up fee funds. Staff has  
16 also recommended that Garkane file tariff pages consistent with the Decision within 15 days of the  
17 effective date of the Decision. Staff estimates that in the first year of hook-up fee collections,  
18 Garkane would add approximately 30 customers at an average hook-up fee of \$2,325 resulting in  
19 annual hook-up fee collections of about \$69,750.

20 19. Staff is interested in assuring that the procedures involved in the implementation of  
21 hook-up fees result in fair and equitable treatment of new customers recognizing that builders and  
22 potential new customers may be in various stages of construction or project planning. For  
23 instance, a builder may have already set the price for a new home to a purchaser, but was unaware  
24 that a \$2,000 hook-up fee would be assessed increasing the builder's cost. It is clear that a  
25 potential electric customer (builder or ultimate customer) that has been given a line extension  
26 quote within 30 days of the implementation of hook-up fees would be exempt, because Garkane's  
27 quote is good for 30 days. However, Staff believes that 30 days may not be sufficient in this  
28 instance. Therefore, Staff has recommended that any potential electric customer (builder or

1 ultimate customer) that has been given a line extension quote by Garkane within 120 days prior to  
2 a Decision in this matter be automatically exempt from a hook-up fee, and that Garkane consider  
3 other exemptions where a quote was provided up to one year prior to a Decision in this matter on a  
4 case by case basis, but exempt the hook-up fee only where signed contract or price commitment or  
5 other factor would make it unfair to assess the hook-up fee at the discretion of the Cooperative.

6 20. Staff is concerned about the fact that Garkane's Arizona Line Extension Policy has  
7 not been updated since 1985 and that it contains provisions for free line extensions up to 600 feet.  
8 As stated earlier, Staff views free line extension allowances and hook-up fees as mutually  
9 exclusive where a Line Extension Policy would normally include one or the other. However, both  
10 practices can exist together where the hook-up fee would simply be reduced by the value of the  
11 free line extension, such as is being done by Garkane presently in Utah. Staff even recognizes  
12 some advantage to maintaining the free line extension temporarily in order to somewhat mitigate  
13 the effect of the hook-up fee by lessening the shock of simultaneously removing the free extension  
14 and imposing the hook-up fee.

15 21. Staff believes that Garkane's Arizona Line Extension Policy should be reviewed and  
16 updated as necessary in Garkane's next rate case. Staff also believes that when the Line Extension  
17 Policy is updated, the Policy should eliminate Garkane's free line extension policy. Therefore,  
18 Staff has recommended that when Garkane files its next rate case, it should update its Arizona  
19 Line Extension Policy to eliminate its line extension free allowance.

20 22. Because of Staff's ongoing investigation into the use of hook-up fees for electric and  
21 gas utilities, decisions resulting from this case should not be considered to be a precedent for  
22 future Commission policy regarding hook-up fees.

### 23 CONCLUSIONS OF LAW

24 1. Garkane Energy Cooperative, Inc. is certificated to provide electric service as a  
25 public service corporation in the state of Arizona within the meaning of Article XV, Section 2, of  
26 the Arizona Constitution.

27 2. The Commission has jurisdiction over Garkane and over the subject matter of the  
28 application.



4. The Commission, having reviewed the application and Staff's Memorandum dated September 5, 2007, concludes that it is in the public interest to approve Garkane's proposed revisions to its Line Extension Policy.

IT IS THEREFORE ORDERED that Garkane's proposed Line Extension Policy, that includes a revision to add hook-up fees as item 10 of that Policy, is hereby approved as discussed herein.

IT IS FURTHER ORDERED Garkane file tariff pages consistent with the Decision within 15 days of the effective date of the Decision.

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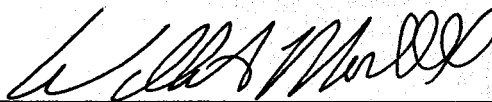
1 IT IS FURTHER ORDERED that when Garkane files its next rate case, it should update its  
2 Arizona Line Extension Policy to eliminate its line extension free allowance.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

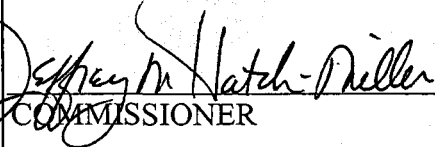
4 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN

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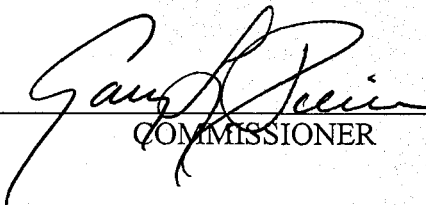
COMMISSIONER

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COMMISSIONER

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11 IN WITNESS WHEREOF, I DEAN S. MILLER, Interim  
12 Executive Director of the Arizona Corporation Commission,  
13 have hereunto, set my hand and caused the official seal of  
14 this Commission to be affixed at the Capitol, in the City of  
15 Phoenix, this 27<sup>th</sup> day of September, 2007.

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DEAN S. MILLER

Interim Executive Director

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19 DISSENT: \_\_\_\_\_

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21 DISSENT: \_\_\_\_\_

22 EGJ:JDA:red\CH

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